

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, May 18, 2001
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Dr. Chuck Essigs, Chairman, Arizona State Retirement System Board called the meeting to order at 8:30 a.m., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call.

Present: Dr. Chuck Essigs, Chairman
Mr. Jim Bruner, Vice Chairman
Dr. Merlin DuVal
Ms. Bonnie Gonzalez
Mr. Jim Jenkins
Mr. Alan Maguire (arrived at 8:32 a.m.)
Mr. Karl Polen
Mr. Ray Rottas

Excused: Mr. Norman Miller

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the April 20, 2001 Regular Meeting of the ASRS Board

Motion: Mr. Jim Bruner moved to approve the minutes of the April 20, 2001 regular meeting of the ASRS Board.

Mr. Jim Jenkins seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

3. Board Approval of Consent Schedule.

Motion: Dr. Merlin DuVal moved that the ASRS Board approve the summary report of Retirements, Refunds and Death Benefits, System Transfers, and Application and Agreements with the Following Employers:

- Pointe Educational Services, dba North Pointe Preparatory
- Cobre Valley Institute of Technology
- Coconino Association of Vocational and Industrial Technology

Mr. Ray Rottas seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

Mr. Alan Maguire arrived at 8:32 a.m.

4. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance for the Period Ending March 31, 2001.

Mr. Terry Dennison, Principal, Mercer Investment Consulting presented the ASRS Total Fund Performance for the period ending March 31, 2001.

Total Fund Performance for Periods Ending March 31, 2001

	Qtr	1 Year	3 Years	5 Years	10 Years
Total ASRS Fund	-7.3%	-11.8%	5.6%	11.5%	12.2%
Benchmark*	-7.7	-13.0	3.7	9.9	10.7
TUCS Public Fund Median	-6.3	-8.7	4.0	10.2	11.0

*1/1/89-12/31/91 is 60% S&P 500/40% LB Aggregate.

1/1/92-12/31/94 is 50% S&P 500/40% LB Aggregate/10% EAFE,

1/1/95-6/30/97 is 45% S&P 500/40% LB Aggregate/15% EAFE,

7/1/97-12/31/99 is 50% S&P 500/35% LB Aggregate/15% EAFE, and

1/1/00-Present is 53% S&P 500/30% LB Aggregate/17% EAFE.

Performance vs. Benchmarks for the 3 Years Ending March 31, 2001

	Return	Assumed ROR	Std.Dev.	Assumed Std. Dev.
Total ASRS Fund	5.6%	8.4%	13.5%	11.8%
Benchmark	3.7		12.3	
Domestic Fixed LB Aggregate	6.8 6.9	5.6	3.7 3.6	5.3
Domestic Equity S&P 500	3.9 3.1	9.4	20.4 20.0	16.3
Intl Equity EAFE	6.0 -0.3	10.0	22.4 21.1	21.5

Performance vs. Benchmarks for the 5 Years Ending March 31, 2001

	Return	Assumed ROR	Std.Dev.	Assumed Std. Dev.
Total ASRS Fund Benchmark	11.5% 9.9	8.4%	12.0% 11.1	11.8%
Domestic Fixed LB Aggregate	7.6 7.5	5.6	3.7 3.3	5.3
Domestic Equity S&P 500	14.2 14.2	9.4	17.9 17.8	16.3
Intl Equity EAFE	7.5 3.7	10.0	19.7 18.6	21.5

5. Presentation, Discussion and Appropriate Action Regarding the Performance of Domestic Large Cap Equity Managers for the Period Ending March 31, 2001.

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the investment manager's performance for the Arizona State Retirement System (E1), the Arizona State Retirement System (E2), Barclays Global Investors (BGI), JP Morgan Investment Management, Inc., and Mellon Equity for the period ending March 31, 2001.

Mr. Michael Viteri, Portfolio Manager, reported on the Arizona State Retirement System's (E1) performance for the period ending March 31, 2001.

	Qtr Ending 3/31/01	1 Year	3 Years	5 Years	Inception*
E1	-12.20%	-21.37%	2.59%	13.85%	14.89%
S&P 500	-11.85	-21.67	3.06	14.18	15.10
Value Added over Benchmark	-0.35	0.30	-0.47	-0.33	-0.22

*From 9/30/95

Mr. Jim Bruner expressed concern about the under performance of this particular portfolio. Mr. Paul Matson, Chief Investment Officer, responded that this portfolio will be reviewed during the RFP process of LargeCap managers, which will take place next year. In addition, \$1.5 billion was effectively transferred from E1 to F2, leaving almost \$3 billion in E2, which has consistently outperformed the index.

Mr. Viteri also reported on the Arizona State Retirement System's (E2) performance for the period ending March 31, 2001.

	Qtr Ending 3/31/01	1 Year	3 Years	5 Years	Inception*
E1	-11.87%	-21.61%	3.25%	N/A	13.01%
S&P 500	-11.85	-21.67	3.06	N/A	12.81
Value Added over Benchmark	-0.02	0.06	0.19	N/A	0.20

*From 4/1997

Mr. David Lissek, Principal, Client Relationship Officer, reported on BGI's' performance for the period ending March 31, 2001.

	Quarter	1 Year	3 Years	5 Years	Inception*
ASRS Net Return	-11.85%	-21.64%	3.06%	14.19%	13.59%
Benchmark Return (S&P 500)	-11.86	-21.68	3.05	14.17	13.58
Total Value Added Relative to Benchmark	0.01	0.04	0.01	0.02	0.01

* Inception: 07/31/1989

Ms. Eileen Cohen, Portfolio Manager, and Mr. Garrett Walls, Vice President, reported on JP Morgan Investment Management, Inc.'s performance for the period ending March 31, 2001.

	Quarter*	1 Year	3 Years	5 Years	10 Years	Inception*
ASRS Return	-9.5%	-17.7%	3.8%	14.2%	15.5%	14.4%
Benchmark	-11.9	-21.7	3.1	14.2	14.4	13.0
Total Value Added Relative to Benchmark	2.4	4.0	0.7	0.0	1.1	1.4

*Not annualized

Inception date: 7/01/87

	Quarter*	1 Year	3 Years	5 Years	10 Years	Inception*
Sector Selection	0.2%	1.1%	0.1%	-0.2%	0.1%	0.3%
Stock Selection**	1.9	2.2	1.0	0.6	1.4	1.4
Other***	0.3	0.8	-0.3	-0.3	-0.3	-0.2
Fee	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Total Value Added Relative to Benchmark	2.4	4.0	0.7	0.0	1.1	1.4

*Not annualized

**Includes interaction

***Includes intra-period trading and cash impact

Mr. William P. Rydell, President, CEO, and Mr. Matthew Cunningham, Vice President reported on Mellon Equity's performance for the period ending March 31, 2001.

	Quarter*	1 Year	Inception **
MEA *	-12.7%	-25.1%	-0.9%
S&P 500	-11.9	-21.7	2.1
Value Added	-0.8	-3.4	-3.0

*All performance is net of fees

**Inception date 7/01/98

	Quarter	1 Year	Annualized Since Inception
Sector Selection	-0.2%	-0.7%	0.3%
Stock Selection	-0.2	-2.2	-1.2
Other	-0.4	-0.4	-2.0
Fees (%)	0.0	-0.1	-0.1
Total Value Added Relative to Benchmark	-0.8	-3.4	-3.0

All performance is net of fees.

6. Presentation, Discussion and Appropriate Action Regarding the Outlook of the Japanese Economy and of Japanese Equity Holding

Mr. Terry Dennison provided historical overview and perspective on the culture and the political and economic climate of Japan. He discussed the impact the current situation in Japan may have on ASRS holdings. Mr. Dennison suggested the ASRS consider reducing the use of indexing for the international equity portion of the fund, without changing the benchmark, to allow managers to make judgments about the allocation to Japan and stock selection.

Mr. Michael McCarthy, Portfolio Specialist, and Mr. Dan Anderson, Vice President Client Services, of the Bank of Ireland, gave an economic snapshot of Japan in relation to the world economy and identified some potential problems to restructuring there.

Mr. Ian Sunder, CFA and Portfolio Manager and Mr. Bill Pickering, CFA, Director of Investments, discussed the investment approach of Brandes Investment Partners, L.P in Japan and identified current ASRS holding and exposure in the portfolio. Mr. Pickering highlighted the strengths and weaknesses of several Japanese companies.

Mr. Alan Maguire was excused at 11:29 a.m.

Mr. Ray Rottas was excused at 11:32 a.m.

Dr. Essigs announced that the Board interrupt the presentations to discuss other agenda items and then return to the Japan discussion.

7. Discussion and Appropriate Action Regarding the Amendment of Exhibit L of Rule R2-8-126 “Multiples of Pay Factors for Determining the Actuarial Liability of a Transferring Member’s Benefit”

Mr. Fred Stork, Assistant Attorney General, informed the Board that an emergency amendment to a rule regarding transfer factors used to calculate a member’s benefit that was adopted at the January 19, 2001 Board meeting will expire in September. In order to make the amendment permanent, the Board must adopt the amendment pursuant to regular rulemaking.

Motion: Dr. Merlin DuVal moved that the Board adopt an amendment to Exhibit L to Rule R2-8-126, “Multiples of pay factors for determining the actuarial liability of a transferring member’s benefit” attached hereto, and that the director file with the secretary of state the notice of proposed rulemaking.

Ms. Bonnie Gonzalez seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

8. Presentation, Discussion, and Appropriate Action Regarding the Election of 2001/2002 Board Officers

Motion: Mr. Jim Jenkins moved to elect Mr. Jim Bruner chairman of the ASRS Board for the term July 1, 2001 through June 30, 2002.

Dr. Merlin DuVal seconded the motion.

By a vote of 5 in favor, 0 opposed, 1 abstentions, 3 excused, the motion was approved.

Motion: Dr. Merlin DuVal moved to elect Mr. Norman Miller vice chairman of the ASRS Board for the term July 1, 2001 through June 30, 2002.

Ms. Bonnie Gonzalez seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

Mr. Karl Polen was excused at 11:36 a.m.

Dr. Essigs announced that the Board would return to Agenda item 6, the Japan discussion.

Mr. Darrell Spence, Global Economist, and Mr. Mike Nycholt, Relationship Manager, of Capital Guardian Trust Co., provided a breakdown by industry of the weight of their portfolio's holdings in Japan.

9. Presentation, Discussion and Appropriate Action Regarding Current Legislative Issues

Mr. Tom Augherton, Deputy Director, External Operations, reported that the ASRS staff, in order to keep employers and members informed about policy changes, has updated its Web site, sent letters to employers regarding the Supplemental Defined Contribution Program, prepared the quarterly member newsletter and will be holding regional briefings for employers. He noted that the primary goal for the External Operations Division over the next few months is to disseminate accurate information to educate members and employers about the new programs and policies.

Dr. Merlin DuVal commended Mr. Norman Miller, Chairman, External Relations and Legislative Committee, as well as the ASRS staff, for leading a productive legislative season and keeping Board members apprised of their activities.

10. Director's Report

Mr. LeRoy Gilbertson, Director, notified the Board that Donna Buelow, Assistant Director, Member Services, resigned her position. He thanked her for her dedication and service. Board members also expressed their appreciation for her efforts and wished her well in her new endeavor.

11. Board Requests for Agenda Items

Dr. Merlin DuVal requested a future discussion on developing guidelines with respect to the ASRS participating in proxy votes of companies where a substantial amount of shares are held by the ASRS as a pension plan.

12. Call to the Public.

There were no requests to speak from the Phoenix or Tucson public.

13. The next ASRS Board meeting is scheduled for Thursday, June 14, 2001 at 8:30 a.m. in the Conference Room of the Little America Hotel, located at 2515 East Butler Avenue, Flagstaff, Arizona, 86004.

14. Adjournment of the ASRS Board.

Dr. Chuck Essigs, Chairman adjourned the May 18, 2001 meeting of the ASRS Board at 12:03 p.m.

Respectfully submitted,

Maurah Harrison, Secretary

Date

LeRoy Gilbertson, Director

Date